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Economic Conditions
Governmental Finance
United States Securities

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General Business Conditions

THE past month has brought no marked change in the business situation. The decline in industrial activity has been halted, and business, aided by seasonal influences, has shown a tendency to expand. Thus far, however, the recovery has been irregular and slow, and the question as to its permanence is still a matter of opinion rather than practical demonstration. This is to be expected at this stage, following so profound a disruption of economic conditions as has occurred all over the world.

Supporting evidence of an improvement in business appears in composite indexes of production and trade, computed to allow for seasonal variation. These, during the past few months, have either ceased to decline or have shown some upturn. While there is no certainty that the decline may not be resumed later on, as was the case after the temporary revival last Spring, the prolonged decline that has already taken place, and the low levels to which business has been reduced, make this seem improbable. What appears more probable is that business has now reached the bottom of the valley, the width of which is still indeterminate. Looking back over the events of recent months, it seems unlikely that we shall again experience so calamitous a combination of circumstances as those of the concluding months of 1930.

Unfavorable developments of the month have included a large number of important dividend reductions and omissions, which not only serve as an unpleasant reminder of the heavy decrease in corporate earnings last year, but imply that these companies do not see enough improvement ahead to warrant dipping into surplus to maintain dividends which are not being earned. March tax collections, falling 40 per cent below those of March last year, were a further reminder of the severity of the depression, and mean that the Treasury faces a probable deficit of between $700,000,000 and $800,000,000 at the end of the year, with a possible increase in taxes to follow. Commodity prices have shown an outcropping of renewed softness here and there, while the announcement of the Farm Board that it will not undertake to valorize the 1931 wheat crop, though by no means unexpected, and undoubtedly constructive in the long run as indicating the abandonment of Government interference with the market, has nevertheless revived concern as to the immediate outlook for agriculture. Reflecting these developments, and the general sluggishness of trade revival, the stock market displayed considerable weakness towards the end of the month and prices lost a substantial part of their earlier gains.

Symptoms of Recovery

As opposed to these more or less discouraging aspects of the situation have been a number of favorable developments which are entitled to consideration. Of these, the most important, to our mind, is the improvement in the foreign situation. This has manifested itself in more tranquil political conditions in many disturbed areas, a stronger tone in several of the leading foreign exchanges, a sharp rise in the prices of foreign securities, and the beginnings of a freer international movement of capital. So important do these developments appear that they may easily mark the turning point towards world economic rehabilitation. For a fuller discussion of the foreign situation we refer our readers to later paragraphs of this Letter.

Other hopeful developments of importance are the broadening out of the bond market, particularly as regards capacity for absorbing new issues, and growing indications of commodity price stabilization. It is true that prices of some commodities have recently shown weakness, but with a few notable exceptions the declines have not been great and most quotations are already so low that they seem hardly likely to go much lower. For all commodities to reach a point of stability at the same time would be a good deal to expect, and the significant thing is that for over a month composite price index curves, both in this country and abroad, have shown a distinct tendency to flatten out.

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In short, economic conditions, despite much that is discouraging, display many symptoms characteristic of the early stages of recuperation. It looks as though the low point had been passed, but progress on the upgrade is likely to be slow.

The Leading Industries

Of the different industries, cotton textiles have made the best record, thanks to the curtailment of output practiced over the past year which has cleared out surplus stocks. Industries such as textiles, whose products wear out quickly and have to be replaced, are naturally among the first in line for improvement. According to the Textile Institute, sales of cotton cloths since January 1 have been larger than in any recent year.

Reports from the heavy industries, on the other hand, are less favorable. Automobile production appears to be showing a normal seasonal gain, but the upturn started from so low a level that unless it goes ahead more rapidly in succeeding months than it has thus far the final year's showing will not compare very favorably with that of last year. Of course the year is still young and not much can be said about the automobile industry until more is known about sales during the all important second quarter.

Building operations are showing some seasonal increase, but are running far below the totals of a year ago. Such projects as the new building development in New York City known as "Radio City" for which contracts for 125,000 tons of structural steel were recently awarded, and the program of the Pennsylvania Railroad calling for another 125,000 tons, indicate that the process of rebuilding and expanding our cities and industries has not halted. At the same time, the plentiful supply of most types of building space and the tardiness of the building industry in adjusting itself to a low cost basis makes it improbable that operations will pick up very rapidly in the near future.

Steel mill activity reflects the backwardness in most consuming lines. Present operations are about 57 per cent of capacity, against 74 per cent a year ago at this time, with the trend both as to volume and prices a good deal confused. Structural work continues to contribute materially to mill schedules, the volume of this business running ahead of that a year ago.

Money and Banking

The money market continued very easy during March. Business demand has not accelerated to any appreciable extent, currency requirements are around the year's minimum, and gold is still flowing into the country. Unless the general trade outlook changes appreciably there seems little reason to expect much alteration in the money situation for some time to come.

Call money on the Stock Exchange ranged chiefly 1½ to 2 per cent, and on one day touched 1 per cent, for the first time since 1915, although in the "outside" market money has been available at this rate from time to time during recent months. Time loans to brokers are quoted 1½—2 per cent for 60-90 day maturities, and 2—2½ for four to six months; open market commercial paper at 2¼—2½, and bankers' acceptances 1⅝ bid, 1½ asked for maturities up to 90 days.

The heavy shifting of funds incident to the March 15 collection of taxes and Treasury disbursements in the public debt was accomplished with little visible disturbance of the money market. These involved something over $3,000,000,000, including retirement of $1,109,000,000 of 3½ per cent notes, issuance of $594,000,000 in new 12-year bonds and $924,000,000 in short-term Treasury certificates, payment of $30,000,000 interest on the public debt, and collection of around $330,000,000 of income taxes. The net effect of these transactions was an increase of over $400,000,000 in the public debt.

The Bond Market

A decided improvement took place in the bond market during March. The adjournment of Congress and the final settlement of the Soldiers' Bonus problem tended to remove early in the month the general feeling of uncertainty that prevailed during most of February. As a result, high-grade bond prices displayed a much firmer tone and the market absorbed a greatly increased volume of new financing. Following the highly successful reception of the Federal Government offering of Treasury bonds and certificates, several large municipal and corporate issues were placed on the market and quickly absorbed. The latter included a $100,000,000 New York City issue, a $66,000,000 issue by The Port of New York Authority, and several large railroad offerings. Total bond financing through March 28th amounted to $647,142,144, compared with totals of $174,174,500 and $620,769,000 for the months of February and January, respectively.

As far as domestic bonds are concerned, the market is still distinctly a high-grade affair, showing little tendency as yet to broaden out. Prime utility bonds have been in particularly good demand, and many of these issues are now selling approximately at their post-war peaks. On the other hand, further irregularity has appeared in the prices of second-grade rail and industrial bonds as a result of disappointing earning statements and numerous dividend reductions.

While the improvement in the domestic bond market has taken the form of a greater capacity to absorb new financing rather than of a marked upturn in prices, spectacular advances have been scored by a large number of foreign dollar bonds. Improved political and business sentiment throughout the world has led to a heavy buying movement from Europe for many of these issues, and more recently to greater interest on the part of American investors. This development is particularly encouraging at the present time, as it should pave the way to a resumption of foreign financing by the United States in the near future, and thus provide a valuable stimulus to our export trade. The extent and widespread character of these recent gains are brought out by the table following which compares present quotations for a representative list of foreign dollar bonds of 12 different countries with the price range during 1930:

	Price 3/26/31	1930 Range High	Low
Argentine 6's, 1961	96⅝	99¾	87
Austrian 7s, 1957	95¼	95⅛	87
Belgium (Kingdom) 7's, 1955	114¼	115⅝	109¼
Chile (Republic) 6's, 1961	84½	94	71
Finland 5½'s, 1958	85½	92	72½
German Govt. 5½'s, 1965	80¾	91¼	68
German Gen. Elec. 6's, 1948	89	97¼	80
Greek Govt. 6's, 1968	87	88¾	80
Italy (Kingdom) 7's, 1951	99⅞	101	88¾
Japanese Govt. 5½'s, 1965	96½	94⅝	90
Lautaro Nitrate 6's, 1954	67	87½	38
Norwegian Hydro-Elec. 5½'s, 1957	99	98½	88¼
Oriental Development 5½'s, 1958	94½	93¼	85⅛
Panama (Republic) 5's, 1963	93	96	89½
Rhine Westphalia 6's, 1955	85½	94	70
Sao Paulo (State) 7s, 1940	84	96⅛	67
Saxon Public Works 7's, 1945	92¼	100¾	73¼
Vienna (City) 6's, 1952	87½	91	82

During the last few days of March mild reactionary tendencies appeared in certain sections of the foreign bond list. Australian issues were weak on the report of a possible default by the State of New South Wales. Central European bonds also showed some irregularity as a result of the announced customs union between Germany and Austria, and the fear that this development might augment temporarily the political tension in Europe.

Profits Return on Net Worth

Since the publication last month of a summary of industrial corporation profits several hundred additional reports have come to hand and we are giving on the following page a revised tabulation brought down to date to include 1560 manufacturing and trading companies. Figures are also shown for the 155 Class I railroads, 51 leading electric light and power systems, the 24 operating subsidiaries of the Bell Telephone System, 50 New York City banks and 60 fire and casualty insurance companies, making a grand total of 1900 corporations.

For the manufacturing and trading groups as a whole, net profits in the year 1930 after depreciation, interest, taxes and other charges and reserves, but before dividends, and after deducting the deficits of companies showing a loss, aggregated $2,246,000,000 and represented a decline of 44.7 per cent as compared with 1929. Our tabulation of statements available at the first of March indicated a decline of 39.6 per cent, but the belated publication of a large number of unfavorable reports, including important companies in the automobile, aviation, leather tanning, mining, petroleum, rubber tire, textile and apparel lines, has materialy lowered the comparative profits in their respective groups and in some cases resulted in a net deficit.

Industrial corporation profits in the year 1930 were at the rate of 6.3 per cent on the stockholders' net worth at the beginning of that year, which aggregated $35,485,000,000. At the beginning of 1929 the same companies had a net worth of $32,186,000,000, on which the year's profits were at the rate of 12.6 per cent, while the corresponding figures for 1928 (not shown in the table) were profits of $3,483,000,000 on a net worth of $29,669,000,000, representing a return of 11.7 per cent.

In examining the balance sheets of the companies whose earnings have been tabulated, one cannot fail to be impressed by the strong and liquid condition that is reflected in the majority of cases, with holdings of cash and marketable securities above those of the previous year and with inventories and accounts receivable sharply reduced. Aggregate current liabilities of industrial corporations on December 31, 1930, were undoubtedly the lowest in several years.

Railroad and Utility Earnings

Most of the important railroads have now issued their preliminary reports for last year and show that net income was approximately 42 per cent below that of 1929 and the lowest since 1921. Total operating revenues declined by 16 per cent and net railway operating income by 30.5 per cent. Indicated net income for all the 155 Class I steam railroads was in the neighborhood of $499,000,000, and represented a return of but 3.3 per cent on their combined capital stock and surplus as of January 1, 1930. In 1929 the return was 5.9 per cent and in 1928 was 5.4 per cent.

This method of measuring earnings is used in order to make the railroad figures comparable with those of industrial and financial companies, although the method commonly used is to take net income, before interest charges, on the property investment, which shows the earnings on borrowed capital as well as stockholders' equity. On the latter basis, rate of return amounted to 4.9 per cent in 1929 and 3.3 per cent in 1930.

Reports of 51 leading electric light and power systems show a 1.8 per cent increase

CORPORATION PROFITS RETURN ON NET WORTH

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.

Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.

(In Thousands of Dollars)

No.	Industry	Net Profits Year 1929	Net Profits Year 1930	Per Cent Change	Net Worth Jan. 1 1929	Net Worth Jan. 1 1930	Per Cent Change	Rate of Return Per Cent 1929	Rate of Return Per Cent 1930
15	Agricultural Implements	$ 73,118	$ 48,230	—34.0	$ 500,829	$ 550,136	+ 9.8	14.6	8.8
18	Amusements	67,715	67,316	— 0.6	397,431	480,353	+20.9	17.0	14.0
34	Apparel	22,602	7,757	—65.7	195,550	203,247	+ 3.9	15.6	3.8
27	Automobiles	356,319	156,702	—56.0	1,627,084	1,761,453	+ 8.3	21.9	8.9
58	Auto Accessories	98,845	33,949	—65.7	427,745	507,274	+18.5	23.1	6.7
16	Aviation	19,940	2,906	—85.4	141,351	172,137	+21.8	14.1	1.7
20	Bakery	55,620	51,140	— 8.1	364,550	380,071	+ 4.3	15.2	13.5
57	Building Materials	60,825	36,437	—40.1	725,245	758,073	+ 4.5	8.4	4.8
32	Chemicals	209,209	155,340	—25.7	1,163,624	1,357,994	+16.7	18.0	11.4
28	Coal Mining	9,447	7,842	—17.0	605,586	595,972	— 1.6	1.6	1.3
20	Confectionery & Beverages	43,401	43,155	— 0.6	182,653	196,686	+ 7.7	23.8	21.9
49	Cotton Mills	11,134	D-14,878	......	346,877	343,566	— 1.0	3.2	......
9	Dairy Products	47,702	53,957	+13.1	217,782	303,278	+39.3	21.9	17.8
17	Drugs & Sundries	82,054	78,960	— 3.8	371,011	411,011	+10.8	22.1	19.2
47	Electrical Equipment	175,867	103,519	—41.1	924,871	1,112,921	+20.3	19.0	9.3
5	Fertilizer	5,112	6,609	+29.3	132,326	139,128	+ 5.1	3.9	4.7
39	Food Products—Misc.	119,152	92,649	—22.2	729,531	781,298	+ 7.0	16.3	11.9
8	Furniture	2,363	D-2,043	......	49,375	52,861	+ 7.1	4.8	......
31	Heating and Plumbing	52,331	20,977	—59.9	384,418	434,469	+13.0	13.6	4.8
43	Household Goods	85,363	47,702	—44.1	594,656	619,481	+ 4.2	14.4	7.7
57	Iron and Steel	403,024	184,446	—54.2	3,615,034	4,067,777	+12.4	11.1	4.5
12	Laundry and Cleaning	2,714	2,473	— 8.9	19,046	20,178	+ 5.9	14.2	12.3
11	Leather Tanning	D-9,174	D-8,666	......	135,193	120,908	—10.6	......	......
14	Lumber	4,095	D-1,936	......	79,932	77,356	— 3.2	5.1	......
103	Machinery	101,476	41,182	—59.4	692,668	750,374	+ 8.3	14.7	5.5
23	Meat Packing	37,257	28,661	—23.1	686,724	703,549	+ 2.5	5.4	4.1
54	Mdse.—Chain Stores	132,231	98,487	—25.5	765,394	855,860	+11.8	17.3	11.5
30	Mdse.—Dept. Store	34,082	19,808	—41.9	384,844	409,380	+ 6.4	8.9	4.8
5	Mdse.—Mail Order	45,125	8,379	—81.4	311,190	398,231	+28.0	14.5	2.1
13	Mdse.—Wholesale, etc.	9,099	D-1,480	......	130,731	131,104	+ 0.3	7.0	......
19	Mining, Copper	175,644	37,592	—78.6	1,073,853	1,382,197	+28.7	16.4	2.7
27	Mining, Other Non-Ferrous	120,544	56,013	—51.6	903,093	1,036,634	+14.8	13.3	5.4
16	Office Equipment	50,276	29,901	—40.5	237,172	249,259	+ 5.1	21.1	12.0
8	Paint and Varnish	14,234	3,047	—78.6	107,091	125,471	+17.2	13.3	2.4
39	Paper and Products	21,687	13,703	—36.8	465,150	461,626	— 0.8	4.7	3.0
77	Petroleum	679,972	343,325	—49.5	6,265,712	6,969,964	+11.2	10.9	4.9
12	Petroleum—Pipe Line	40,083	30,950	—22.8	206,789	209,276	+ 1.2	19.4	14.8
30	Printing and Publishing	42,301	33,415	—21.0	209,204	221,584	+ 5.9	20.2	15.1
24	Railway Equipment	65,032	53,196	—18.2	805,991	842,235	+ 4.5	8.1	6.3
21	Real Estate	19,330	15,492	—19.9	204,683	208,716	+ 2.0	9.4	7.4
13	Restaurant Chains	9,655	8,195	—15.1	67,352	85,155	+26.4	14.3	9.6
22	Rubber Tires, etc.	36,980	D-20,566	......	569,422	661,489	+13.9	6.5	......
17	Shipping, etc.	20,595	10,198	—50.5	305,074	237,351	—22.2	6.8	4.3
17	Shoes	28,889	15,750	—45.5	213,547	222,834	+ 4.3	13.5	7.1
24	Silk and Hosiery	12,561	D-3,570	......	145,459	152,484	+ 4.8	8.6	......
10	Stock Yards	4,005	4,004	......	47,473	47,931	+ 1.0	8.4	8.4
17	Sugar—Cuba	D-3,285	D-15,979	......	282,576	274,634	— 2.8	......	......
28	Sugar—Other	29,045	20,755	—28.6	445,031	444,959	0.0	6.5	4.7
28	Textile Products—Misc.	26,116	3,930	—85.0	300,510	308,310	+ 2.6	8.7	1.3
27	Tobacco	112,805	121,465	+ 7.7	776,531	839,749	+ 8.1	14.5	14.5
10	Warehouse and Storage	4,327	3,424	—20.9	51,424	52,731	+ 2.5	8.4	6.5
8	Wool	D-5,563	D-8,768	......	153,113	147,650	— 3.6	......	......
126	Miscellaneous—Mfg.	164,041	94,714	—42.2	1,107,889	1,235,370	+11.5	14.8	7.7
45	Miscellaneous—Services	36,124	26,371	—27.0	339,180	371,689	+ 9.6	10.7	7.1
1560	Total Mfg. and Trading	4,063,496	2,246,140	—44.7	32,186,390	35,485,424	+10.2	12.6	6.3
155	Class I Railroads	861,000	P-499,000	—42.1	14,603,895	15,176,002	+ 3.9	5.9	3.3
51	Electric Light, Gas, etc.	541,867	551,285	+ 1.7	4,915,331	5,829,984	+18.6	11.0	9.5
24	Bell Telephone Cos.	217,105	201,646	— 7.1	1,938,442	2,087,727	+ 7.7	11.1	9.7
50	New York Banks (a)	222,509	126,634	—43.1	1,564,847	2,052,048	+31.2	14.2	6.7
60	Insurance Companies (b)	71,064	D-108,324	......	845,780	950,076	+12.3	8.4	......
1900	Grand Total	$5,983,049	$3,516,381	—41.1	$56,054,685	$61,581,261	+ 9.9	10.6	5.7

D—Deficit.
P—Preliminary.
(a) Calculated profits include dividends paid by, but not undistributed earnings or losses of security affiliates.
(b) Fire and casualty. Figures represent total stockholders' gains, including underwriting earnings and investment profits or losses.

in their combined net income, as compared with 1929. This was partly due, however, to acquisition of other companies during the year and was accompanied by an increase of 18.6 per cent in capital and surplus, so that the rate of return declined from 11.0 per cent to 9.5 per cent.. Earnings on the entire property investment, before payment of interest, would be at a lower rate than the figures applying to stockholders' equity only.

The American Telephone and Telegraph Company includes in its annual report a consolidated statement of the 24 principal operating subsidiaries of the Bell Telephone System, whose stock it controls. These showed a 7.1 per cent decrease in net income last year, as compared with 1929. As the combined capital and surplus had increased by 7.7 per cent, the rate of return declined from 11.1 per cent to 9.7 per cent. These figures, as in the case of the other public utility systems, are above the rate of return on entire capital investment, and are not adjusted to allow for such additional new capital as was in use for a portion of the year.

Banks and Insurance Companies

It is difficult to obtain current data covering bank earnings for the country as a whole, but the reported or calculated net profits of a group of 50 New York City banks showed a decline of 43.1 per cent as compared with 1929. Their combined capital, surplus and undivided profits on January 1, 1930, were 31.2 per cent higher than a year previous as a result of capital increases and retention of surplus earnings during 1929, and the rate of return thereon declined from 14.2 per cent to 6.7 per cent. Earnings figures include dividends distributed but not net profits or losses of investment affiliates, and correction has been made for mergers. The showing of many individual banks was considerably better than that of the group, inasmuch as 18 of the 50 banks had indicated deficits, which were deducted in arriving at the net total.

Last year was a poor one for the insurance companies, the reports of 49 fire and 11 casualty companies showing a net loss on stockholders' equity of $108,000,000 in contrast with a net gain of $71,000,000 in 1929. Underwriting profits of the fire companies declined sharply compared with 1929 as a result of a smaller volume of new business written and lower rates brought about from keen competition, while there was an increase in fire losses. The casualty companies also suffered from reduced volume, lower rates and an increase in losses on embezzlements, etc. In addition, both groups had a substantial write-down of their securities last year and also in 1929, whereas in 1928 the appreciation of securities carried total stockholders' gains for the same 60 companies to $179,000,000.

Foreign Affairs

Six months ago much anxiety was manifested over an apparent tendency for the Continental European countries affected by the peace treaties to line up in two groups; to wit, on one side the countries satisfied with the existing status, including France, Poland, Czechoslovakia, Yugoslavia, and Rumania, and on the other side the countries dissatisfied and wanting something done, to wit, Germany, Austria, Italy, Hungary, Bulgaria and Turkey. In this alignment was seen a menace to the peace of Europe. Italy was believed to want more territory in Africa, which could only be had at the expense of France, and this gave a serious aspect to the disagreement between the two countries over the relative strength of their navies. Germany, Austria, Hungary, Bulgaria and Turkey lost territory by the war, while France and Rumania gained territory, and Poland, Czechoslovakia and Yugoslavia virtually were established as new nations. Such an alignment, therefore, seemed natural enough and every sign of developing cooperation in either group promptly has been made the subject of more or less agitated comment in the public press, which never fails to produce reactions on the other side. The election in Germany last September revealed surprising strength in a Fascist party and placed the conservative forces of the country in a minority in the Reichstag, or Parliament. This development caused real alarm in the other group, for the conservative forces representing the business and property interests of Germany have been the chief reliance for maintaining sound financial policies and carrying out the Young Plan. The Fascist, or Hitler party, is for scrapping the Young Plan forthwith, and of course would have the support of the Communistic Party. The election was chiefly important as revealing the resentful attitude of young Germany toward the war settlement. The sanctity of treaties depends at last upon the willingness of the voters of a country to abide by them. The voters have power in Germany, as in every democratic country, to turn out governments when they choose.

A Change for the Better

Premier Bruening of Germany developed superior qualities of leadership and although having only a minority of dependable supporters in the Reichstag, he had very dependable and influential support in President Hindenburg, and was successful in securing tacit, although qualified, support from the Social Democratic Party (Socialist), which was far from wanting to aid the Fascist Party in its program.

The constitution of Germany authorizes the President in an emergency to adjourn the Reichstag and put new laws into effect by

decree, subject to the right of the Reichstag on reassembling to nullify them. The President thus put into effect the entire Bruening program for this year, including the imposition of new taxes and raising of certain loans, to balance the budget. When the Reichstag was reassembled the Social Democratic Party refused to assist the Fascists and Communists in nullifying the decreed laws. Hence no crisis occurred and Premier Bruening seems to be secure for perhaps another year.

Neither the substantial business element of Germany nor the Central or Bruening Party, or the Social Democratic Party ever has shown any interest in the imagined coalition to overthrow the peace treaties.

The Reparations Question

Undoubtedly the German people have been much agitated over the "corridor" which separates East Prussia from Germany (to afford an outlet for Poland to the sea), and over the reparation payments, which seem much more formidable in view of the great fall of prices which has occurred since the Young Plan was adopted. They urge that their position is made more difficult by the enactment of higher import duties the world over for the protection of home industries on account of the general industrial depression, and that it is not in the interest of world recovery that they be compelled to export increasing quantities of goods to correspond with falling prices. As to this, of course, much depends upon whether the fall of prices is permanent or temporary.

The present leaders of Germany have said nothing that indicates a purpose to take any arbitrary step to relieve themselves from obligations upon which the nation has entered. It is pertinent to quote, as we do following, from an address delivered by Dr. Hans Luther, President of the Reichsbank (the central bank of issue of Germany) upon the occasion of the opening of the Leipzig Fair, March 1, 1931.

He said in part:

Whatever political decisions may be made, it is certain that Germany will never depart from the customs of an honest merchant. The system of private enterprise under which we live demands not only free scope for the development of individual power and the removal of the above mentioned obstacles, but also the acknowledgment and the fulfilment of all agreements voluntarily entered into.

The Young Plan, on which the reparations payments at present are based, is a mutual agreement. It has imposed obligations on Germany, but also obligations on the other contracting parties.

The Dawes Plan provided only for a temporary settlement and contained a number of especial provisions to take effect in the event of the great crisis which was even then expected. But once the Young Plan was adopted in the form of the Hague Agreement, it became an instrument to which Germany is bound by the legal signature of the President and the Government of the Reich. However psychologically comprehensible it is from a national point of view that the terrible misery reigning in Germany today turns the feelings of wide circles of the population against the Young Plan, as the acknowledged confirmation of the reparation burdens; however much the form of the Young Plan as a final settlement must strengthen these feelings, it must not be forgotten that the Young Plan liberated us from foreign occupation and from the foreign control of important parts of our State, including the Reichsbank and the Germany Railway Company. Especially these facts lead to emphasize again and again that the Young Plan is a mutual agreement, and while we must therefore clearly recognize our own obligations we can equally demand the fulfilment of the obligations of the other contracting parties.

It is only a further application of these principles based on common law if we say most clearly and emphatically that Germany has, under no circumstances whatever, the slightest intention of suspending payments due in civil law or payments to private individuals. These absolutely inviolable payments include the interest and capital service of the Young and Dawes Loans. These obligations, which are now of a purely civil character, would be in no wise affected even if Germany were to postpone the cash transfers and payments according to the conditions and to the extent provided for by the Young Plan. These obligations would likewise not be affected, even if alterations in the Reparations were brought about by agreement between Germany and the creditor powers.

It cannot be too often repeated that the word moratorium, which unfortunately is frequently used in connection with Germany's very limited rights of postponement under the Young Plan, has tended to give rise to a totally false and misleading impression that Germany is contemplating something in the nature of a suspension of payments. Even the most passionate advocates in Germany of a revision of the Young Plan do not harbour, for a moment, the idea that the German demand for revision should likewise imply a stoppage of the payment of private debts, including the private debts of the Reich.

This definite utterance from the President of the Reichsbank has been reaffirmed in similar language by Premier Bruening, and the utterances of both may be accepted as representing the responsible elements in Germany.

With the enactment of the Bruening measures and this assurance of no change in the government in the near future, agitation in Germany has quieted down, although the country is suffering severely in the general business depression.

Although her foreign trade was maintained in 1930 more successfully than that of any other country, it was done by a resolute exclusion of imports (wheat for instance) and a most energetic campaign in behalf of exports. The number of unemployed is about 5,000,000, which means that, including dependents, fully 20 per cent of the population is directly affected by unemployment. Obviously this gravely affects purchasing power.

Improvement Elsewhere

Developments elsewhere have occurred which have had an influence in relieving the state of tension existing last Fall. Largely through the mediation of the British Minister of Foreign Affairs, Mr. Henderson, but of course not without a conciliatory spirit on the part of the negotiating parties, the naval disagreements between France and Italy have been settled, at least until 1936. The main provision of the settlement is that neither country will build a large ship before 1936.

The other details need not be dwelt upon. A general naval conference, when the subject of disarmament will be taken up is to be held under the auspices of the League of Nations in February, 1932, and meantime that subject may be considered quiescent.

Another event which helped to create a better feeling was the action of French banks in participating in a German loan. This was not in itself an incident of large importance. The total amount of the loan was $32,000,000, and the larger part of it was placed in other countries, an American banking house having it in charge. Dr. Luther, in the speech already referred to, explained the occasion for the loan as follows:

The budget of the Reich for 1930 provided for the sale of a certain amount of preferred shares of the Germany Railway Company, owned by the Reich, as a means of providing funds for budgetary purposes. These shares have been sold. The purchaser of these shares, the Reichs Employee Insurance Co., could not pay the purchase price cash down because of prior obligations and would only be in a position to pay it within the next two years, after receipt of current insurance contributions and other revenues. As, however, the Reich needed the proceeds of the sale of the Reichsbahn preferred shares for their 1930 budget, banks of different countries have advanced the amount required.

The friendly attitude of the French banks was more noticeable because the French market declined to participate in a larger German loan, handled by the same American bankers a few months before.

Other developments in the French money market of cheering significance and no slight importance include a loan to Rumania and reports of loans pending to Yugoslavia and Poland, aggregating according to the newspaper sources, 3,000,000,000 francs, or about $120,000,000. The loan to Rumania, 1,325,000,000 francs, or $53,000,000, has been consummated, but the others have not materialized as yet. A considerable portion of the Rumanian loan is reported to be for use outside of Rumania, $10,000,000 in repayment of an advance by the International Telephone and Telegraph Company, and $12,000,000 to the Swedish Match Company, and $3,500,000 to other foreign contractors. General interest has been felt in this important loan and the rumor of others, as tangible evidence of the purpose of the French financial authorities to do what they can to make the French market available for foreign financing. It is no doubt true that the body of individual French investors is feeling cautious about foreign investments. They lost heavily upon pre-war investments in Russia and Turkey, and of course upon holdings of their own French Government bonds, in the latter case by the inflation of the currency, and they are disposed to be careful. The Rumanian loan was tempting, for the discount was 13½ per cent and the interest rate 7½ per cent, with interest and reimbursement payable at the option of the holder in his own currency at Paris, London, New York, Berlin, Zurich, Stockholm, Vienna, Prague, Bucharest, or Amsterdam. It runs forty years.

The drain of gold from London to Paris appears to have ceased, at least for the time being, and the Bank of England has been gaining gold in recent weeks, which has created a better sentiment.

A Customs Tariff Union Between Germany and Austria

The state of comparative tranquillity in international relations on the Continent was suddenly disturbed by the announcement on March 21 that an agreement for a customs union had been consumated between the Governments of Germany and Austria. There were no preliminary rumors, the first word to the public being the announcement that the agreement was an accomplished fact. Free trade would exist between the countries, the Governments would agree upon tariff charges against imports from other countries and upon a stated division of the aggregate receipts therefrom. Although the treaty by its terms runs for but three years, the announcement has been the most sensational news in Europe since the war, for it has been accepted in many quarters as significant of an approach to the political union of Germany and Austria expressly provided against in the Treaty of Versailles. It does not necessarily follow that such is the intent of the two Governments, for as a business proposition it seems like a stroke of practical statesmanship. Nearly everybody has agreed that there are too many tariff barriers in Europe. M. Briand, the French Foreign Minister, has been very much interested in efforts to form a commercial United States of Europe, in order to enable trade to flow more freely. Vienna, with 2,000,000 population before the war, was the industrial, financial, and political capital of an empire of 50,000,000 people, but since the war Austria has been reduced to about 6,000,000 people and hemmed in by tariff walls which are an almost insuperable obstacle to trade with the areas of which formerly she was the trade center. She has mineral wealth, a skilled industrial population, and abundant water power. She is desperately in need of a trade area, and although Germany may be said to be amply industrialized already, no doubt it would be to the advantage of Austria to have access to the German market. A question is raised as to the value of the arrangement to Germany, but this suggests the very reason for alarm to other countries. Through Austria lies the way to Southeastern Europe, where agriculture is suffering for markets.

Germany imports such products and the suggestion immediately rises that the customs union may be extended in that direction. The announcement by the Governments of Germany and Austria makes an offer to extend the arrangement to any other country that may wish to join. This offer may have been intended as a defence against the charge that the agreement is of political intent and in evasion of the Versailles Treaty, but it is none the less entitled to be classed as commercial strategy. It might open a road all the way to Turkey, the Black Sea, and Southern Russia.

In France, Italy, Czechoslovakia, and Poland opposition to the customs union, has been manifested on the ground that it is in violation of the Versailles Treaty. The fact that the German Empire had its beginning in a similar compact between the German States is suggestive, for Austria is overwhelmingly German. The Foreign Minister of Great Britain has proposed to Germany and Austria that it will be in observance of the purpose of the League of Nations for them to await completion of the plan until the League can have had opportunity to discuss it at a meeting to be held in May.

Britain Making a Settlement With India

Another political development of world importance is the preliminary agreement reached by the British Government with India. The Round Table Conference in London last Fall between the British Government and the independent princes and other important leaders in India resulted in an agreement for a federated government in which all parts of the country, including British India and the States having independent native rulers, will participate. Many details remain to be worked out, and another Round Table Conference in England will be held for that purpose, but Britain will endeavor to retain certain safeguards for minority groups of the population, the discharge of existing financial obligations and perhaps control of the army. India seems to be in the way of obtaining practically the status of Canada, Ireland, and the other Dominions. Although the political boycott upon British goods is partially raised, Gandhi, the native leader, continues to advocate the use of domestic goods in preference to all foreign products, and the prospects are for a tariff that will make this policy effective. Although this is unwelcome to England, after all it is no more than what other countries, including England herself, are doing. Nevertheless, even though a loss of trade may result, it is probable that the body of the English people will feel a sense of relief when the Indian problem as well as the Irish question will no longer be an issue in their politics.

The British Situation

Conditions in Great Britain are anything but good, the fundamental trouble being the falling off of export business through inability of the principal industries to meet competition. Wages reached a high level during the war, and were practically increased by the stabilization of the British currency at the pre-war rate to gold, while on the Continent wages were generally reduced by the inflation of the currencies. The situation has had a keen analysis by Mr. Beckett, Chairman of the Westminster Bank, in his address at the annual meeting of that institution recently. He said in part:

> The crux of the whole matter is that British production costs are too high to admit of the possibility of present expansion in trade in competitive markets, whether at home or abroad. Somehow or other costs have got to be reduced to a level which facilitates effective competition, and this brings me back to one of the gravest features of the situation—namely, the wide and increasing disparity between wholesale commodity prices and the cost of living. * * * Unless retail prices and the cost of living can be reduced there is grave danger that every attempt at readjustment of nominal wages will meet with resistance, and that the country will be plunged into a series of formidable industrial disputes which would provide an incalculable aggravation of the handicaps under which we are already suffering. Wage reductions alone, especially in the transport and distributive industries, would lead to some reduction in retail prices, but workers are quite naturally suspicious that such reduction of prices would probably be disproportionate to their own sacrifices. There is a strong case, therefore, for a sweeping investigation of all the causes contributing to the maintenance of the big gap between wholesale and retail prices, and also of the possibility of removing all obstacles which stand in the way of their closer relationship. Until this matter is taken in hand the necessary correlation of earnings with productivity cannot be expected to proceed smoothly.
>
> In the same connection there are two other main difficulties. Wages, although usually the predominant item, are by no means the only one on the sheet of production costs, and workers will submit to sacrifices willingly only when convinced that they are to be common among all parties concerned. It can hardly be denied that in many industries a lack of the required degree of managerial efficiency, a reluctance to jettison obsolete methods and machinery, and a parochiality which obstructs the formation of larger and more efficient units of production, are contributing substantially to-day towards keeping manufacturing costs at a swollen figure. The process of recovery is retarded by the worker who resists the introduction of labour-saving machinery or methods, and equally by the employer whose own industry is not as efficient and up to date as its counterpart in other countries, and who fails to pursue resolutely every method for making it so.

The primary difficulty is that Great Britain is demanding an exchange ratio between her manufactures and the imports of food stuffs and raw materials that she receives from her customers around the world which of itself cuts down the buying power of the latter, so that exports of every important product of Great Britain are far below the pre-war volume. As a noticeable result the number of unemployed workers is greater than ever before. Trade between countries is similar to trade

between individuals. If a trade is flourishing on the basis of ten yards of cloth for a bushel of wheat, and the cloth producer suddenly decides that he will only give five yards for a bushel of wheat and wants no more wheat than before, he need not be surprised if he only sells half as much cloth and is idle half his time.

The political situation in Great Britain is in great confusion. The Labor Party is in power, but does not command a majority, depending upon Liberal Party votes to help it out in every pinch. They are supplied because the Liberal Party has no hope of winning an election if one should be held, and, agreeing with the Labor Party on the tariff, would rather have it in power than the Conservative Party. The Conservative Party is out for a tariff on all imports. The general argument is that with a surplus production everywhere Britain is the dumping ground of the world, with the result that the influx of foreign goods and low volume of home production is having such an effect in raising costs that the first step towards the recovery of Britain's former position should be in protecting the home market, in order to obtain the volume of production necessary to low costs.

Not many years ago, and throughout all the history of the iron and steel industry, Britain had undisputed leadership in the export field, but the London Times in a recent editorial emphasizing the grave position of that industry, says that last year exports of iron and steel products aggregated only 3,157,000 tons, while imports amounted to 2,908,300 tons, a difference of only 149,000 tons, and that in the last four months of 1930 imports of iron and steel actually exceeded exports! Meanwhile, the appropriations for public support of the unemployed have been steadily growing. Last year the Treasury had a large deficit and the super-income taxes were increased to cover it. For the year ended March 31, 1931, another deficit is anticipated and the Labor Chancellor of the Exchequer makes no secret that taxes will have to be raised again, and that he will go after the money at the "only place where he knows it can be had," i.e., by more taxes on incomes. The idea is that the rich do not need their large incomes and that they can be further reduced without imposing any serious inconvenience. This overlooks the fact that these surplus incomes are an important source of the new capital for the improvement of industry, which is just what England is in need of at the present time. The country is consuming capital, or eating its seed corn, while other countries are forging ahead in industrial development and making the British industries less and less able to compete in world markets. Where is the outcome and what is the remedy?

Economics in Politics

Something like a deluge of socalled "Progressive" oratory and literature has been released in the last month. A conference was held in Washington to enable the political spokesmen, before scattering to their homes upon the adjournment of Congress, to fire a last volley at the "interests," and the literary output is heavy because the public mind is thought to be more receptive just now to the gospel of discontent than it has been in recent years or may be in the future.

The character of the discussion has been about the same as heretofore. Except for the condemnation of the President of the United States for not having made a success of the act "to establish equality between agriculture and the other industries"—an undertaking outside the province and powers of any form of government not holding dictatorial powers —and of "the leaders of American industry" for having "failed in this crisis as in every other crisis to assume their responsibility for keeping their wage-earners employed and American industry at work"—in the face of a world-wide collapse of markets—the language has been very much like that of similar occasions in the past. The statement that "out of 120,000,000 people of this country"—counting men, women and children—"80,000,000 have incomes of less than $1,000 per year" is a variation of the usual form but hardly has the merit of originality. "The perpetuity of our institutions and the preservation of our civilization" were again said to "demand that the power of wealth shall be curbed in its selfish and unholy ambition," and over and over again the warning was sounded that "enormous combinations of wealth are rapidly gaining control of all our business institutions and are dangerously near the control of our political parties and through them of the Government itself."

The individual speeches and formal utterances of the conference were uniformly to the effect that the management of American industry has been a failure economically, is unintelligent and ineffective, has exploited both wage-earners and consumers, and that "some semblance of order must be substituted for the present archaic and irresponsible conduct of industry."

It may be said of the distinguished orators that most of them doubtless are sincere in their beliefs and well-intentioned, although no more so than a vastly greater number of people who disagree with them; also that they are educated, as that term is commonly used, and are not lacking in intelligence to understand matters which they really attempt to inform themselves about. Nevertheless, some of them have been making practically the

same speeches for forty years or more and all they have been saying has been amply refuted during the same time by the record of American industry and the rising standard of living of the American people. It would be idle to say this without offering proof of it and we shall offer proof following in the form of conclusions reached by a number of the most highly regarded authorities upon economics and social progress in this country. We shall refer particularly to the books, "Earnings of Factory Employes, 1899-1929," issued by the Bureau of the Census and prepared by Mr. Paul F. Brissenden; "Real Wages in the United States 1899-1926," an exhaustive work by Paul H. Douglas, Professor of Industrial Relations, University of Chicago; "The National Income and Its Purchasing Power," issued by the National Bureau of Economic Research, Inc.,† and prepared by Professor Willford I. King, formerly Professor of Economics, University of Wisconsin, member of the Bureau's staff and long known as a writer upon this subject; "Recent Economic Changes," a two-volume work prepared under the auspices of a committee appointed by President Harding's Conference on Unemployment in 1921, of which Herbert Hoover has been Chairman and Mr. William Green, President of the American Federation of Labor is a member. The economic studies of these volumes were made by the staff of the National Bureau of Economic Research, Inc. We shall quote also from a new book* by Dr. Richard T. Ely, Professor of Political Economy in Johns Hopkins University eleven years and in the University of Wisconsin thirty-three years, whose name is one of the most honored in the literature of political and social science in this country and possibly from others.

We shall undertake to show from unimpeachable authority that these attacks upon the existing system of industry, finance and business are unwarranted, misleading and grossly untrue. This is not to claim t' . in a free society all business transactions conform to a high standard of ethics,—for business transactions are what individuals make them, —but that the economic principles upon which American business is based are fundamentally sound, promote social progress and have resulted in a constantly rising standard of living for the entire population. What better test can there be?

Speech by Mr. William Green

The first witness whose testimony we wish to review is Mr. William Green, President of the American Federation of Labor. Mr. Green was invited to make a speech before the Washington Conference. He is not a thorough-going "progressive" by the standards of the cult, in fact it is common knowledge that Mr. Green in many respects is rated in "advanced" circles as a "reactionary," which means that he has a vein of practical sense. In fact, Mr. Green is a very practical man, and no doubt an honest and sincere man, the head of organized labor, and more interested in any chance to advance upon its immediate objectives than in fanciful theories. For example, he is not in favor of trade with Russia or the recognition of the Soviet Government and told the Conference so, a statement which according to newspaper reports was greeted with "voices of protest."

However, on the whole, Mr. Green made a speech that was pleasing to the Conference. He is a free and even eloquent speaker, and to a certain extent, he was willing to give his audience what it wanted. We think it worth while to quote some of his utterances which evidently met with full approval, because we want to reply to them specifically. He said:

> These recurring periods of unemployment constitute a challenge to our ability to grapple with these forces and control them. Are we to admit that these are the acts of Providence, that they must come with recurring regularity, inflicting injury and distress and suffering upon the millions of the people? Can we master in the field of science and fail in the field of economic control? Are we to admit our failure to deal with these forces that underly these distressing situations and to master them, so that we can develop an economic order that will result in the maintenance of domestic and economic tranquility?
>
> I, for one, am not so pessimistic. I believe that there is inherent within us the power and the ability to control and master these forces, so that through orderly planning and the development of better methods, we can maintain regularity, make it possible for every man and woman willing and able to work to secure an opportunity to earn a decent living. (Applause.)
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> As the Senator from Wisconsin said in his opening remarks, we have been devoting all our time and energy toward the development of our productive forces, without taking into account the market requirements of industry and of the nation.
>
> It seemed to matter very little to industry and those who controlled it, about the ability to market and consume the goods produced. The whole force and genius of man was concentrated upon the development of better and more comprehensive productive facilities, and as a result of it we have keyed up production without developing the purchasing power of the masses of the people in conformity with our increasing productive facilities.

*"Hard Times, the Way In and the Way Out," by Richard T. Ely; Macmillan, publisher, $1.75. This is a readable, non-technical, book on the economics of the present situation. It may be said to be a summing up in brief form of the results of Dr. Ely's fruitful life of observation and study upon economic and social affairs. It should be widely read.

†The National Bureau of Economic Research is an organization not for profit organized in 1920 in response to a growing demand for exact and impartial determinations of facts bearing on economic, social and industrial problems.

It seeks not only to find facts and make them known, but to determine them in such manner and under such supervision as to make its findings carry conviction to Liberal and Conservative alike.

Entire control of the Bureau is vested in a Board of twenty-one directors, representing universities, learned and scientific societies, financial, industrial, agricultural, commercial, labor, and technical organizations.

Perhaps these simple figures will convey that fact to you more convincingly and clearly than any words I could command: *From the period between 1919 and 1929 productivity in industry increased 50 per cent, while at the same time real wages paid the masses of the people increased only 27.5 per cent.*

Now is there any economist here who can tell me how we can keep constantly increasing productivity 50 per cent and the ability to buy 27 per cent, and at the same time consume and use all the goods that industry produces?

It was inevitable that we would reach this climax.

Our productive power far outran our ability to consume. For every single item produced by industry and manufacturing processes, you must make provisions for the masses of the people, the consuming power of our country, to buy back and use that commodity. It therefore means that an economic remedy must be applied.

* * * * *

In the manufacturing industry the production per worker increased 50 per cent from 1919 to 1929. Our industries in 1929 produced 42 per cent more than they did in 1918, while 546,000 workers were dropped from the payrolls. 546,000 consuming units taken out of the purchasing markets of our country!

In the bituminous coal mines the production per worker increased 23 per cent, and 100,000 were laid off. In the State of Illinois, in the bituminous coal fields of that section, 50 per cent less workers are producing now as much or more than the original 100 per cent.

On the railroads new machinery and technique so increased workers' efficiency that 253,000 workers were dropped from the railroad payrolls, although considerably more freight was carried than in 1919. With 253,000 workers less, more freight is being carried by the remaining forces, but 253,000 workers have gone somewhere. Where? To an already overcrowded market!

* * * * * *

Now, my friends, labor proposes some remedies, practical as we believe, constructive, real remedies.

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Labor proposes that there shall be immediately inaugurated in both public and private industry, the shorter work week, not to exceed five days work a week. (Applause.)

In this respect we believe that the Congress of the United States can accelerate this great movement in behalf of the shorter work week. There is pending in the Congress of the United States a bill which will provide for the five day work week for all government employees. Many lines of industry have led in this great economic reform. We have established the five day working week in a large part of the building industry and in other miscellaneous lines of industry, but the government is lacking.

We had a tremendous fight during the last session of Congress to secure the passage of a law which would give the government workers five and a half days per week. Why should they follow in a great reform of this kind? I am of the opinion that we should have the great moral and economic support of the government in finding work for the unemployed by shortening the work week, so that wider and greater opportunities will be given for men and women to earn a decent living, and the government of the United States will fail in its duty at the next session of Congress if it does not pass a law providing for the five day work week for all government employees. (Applause.)

Along with that, we believe that the hours of labor should be so reduced as to square fairly with the increasing power of the individual's efficiency and productivity. If a man can do the same work now in four days that he did two decades ago in six, then why should he be required to work the same number of days, only to stagnate the economic situation and to create further chaos?

I just want to read to you some figures showing the comparison of the amount paid to labor to value of goods produced, covering a certain period of time.

In 1899 the value of goods produced was $11,406,-927. The total in wages was $2,808,361. The per cent paid in wages to goods produced was 17.6 per cent. That was in 1899.

Value of goods produced in 1929 was $69,417,516. The total amount paid in wages was $11,421,631. The per cent paid in wages was 16.5 per cent, or considerably less than was paid in 1899.

First of all we stand with the railway organizations of this country in opposition to any plan of railroad consolidation that does not take care of the human element. Second, we support them in their efforts to secure a reduction in the hours of labor, so that the army of railway employees may be given an opportunity to work.

We have given so much of the speech because it sets forth quite fully some of the doctrines which are vital to the present situation —doctrines with which social progress has had to contend from the beginning of modern industry and which are condemned by the practically unanimous opinion of economic authorities everywhere.

Outstanding is the doctrine that "the hours of labor shall be so reduced as to square fairly with the increasing power of individual efficiency." Obviously he means increasing productive power as equipped and directed in modern industry. For it is improved machinery, organization and management, not the increased capacity of manual labor, which has brought about the increased productivity of modern industry.

According to Mr. Green, as fast as the railroad's capacity over that of the stage coach was developed, the hours of labor in transportation should have been reduced to "square fairly" with this increased productivity. The effect of this policy would have been to allow little or no reduction in transportation charges and produce little or no benefit to the public. Indeed, if his theory had been carried out to the letter there would have been no railroad development, for there could have been no compensation to capital for building railroads.

The same principle applies to all the improvements in industry which have eliminated labor and by so doing have cheapened products and services, multiplied the quantity of products within reach of the common man, and raised the standard of living.

All human progress, since man dressed himself in skins and lived in a cave or a hut with a dirt floor, has come by increased efficiency in industry, and if every increase in efficiency had been nullified by a reduction in the hours of labor the human race would have been today just where it began, except worse off by the competition of increased numbers for a livelihood. We shall not take more space here to discuss this phase of Mr. Green's argument, but will recur to the subject of unemployment later.

His figures show that in 1919 labor, in the manufacturing industries received in wages the equivalent of 17.6 per cent of the finished product, and that in 1929 productivity per person had increased 50 per cent, but labor then received in wages the equivalent of only 16.5 per cent of the product. Again it is true

that the increase of productivity was mainly due to improvements in equipment, organization and management, rather than to increased productivity of manual labor. Nevertheless, Mr. Green thinks that labor in the manufacturing industries should have had the same proportionate share of the product. In fact, the difference is very slight, and serves as proof of the often disputed truth that labor is the principal gainer from increased productivity. In fact, labor does not gain alone by increased wages but also gain as a consumer by the decline of prices which results from improvements in industry. If its gains from both sources could be calculated, the share of labor in 1929 doubtless would be found larger than in 1899.

If by the investment of capital in improved equipment 50 men were enabled to produce what formerly required 100 men, he thinks that labor should still have in wages the same share of the product as before, which would offer small inducement for capital to take the risks of increased investment, and afford no opportunity for the general public to share through a reduction of prices.

Finally, Mr. Green's remedy for depression is to raise all labor, including government employes, to the status of the building trades. Their achievements constitute his ideal. Their wages have been raised and hours reduced until the few wage-earners can afford to own a home and 40 per cent of the building trades are out of employment.

It is no secret that Mr. Green is negotiating with the big 4 railroad brotherhoods to bring them into the American Federation of Labor, and to support them in the demand they have formulated for a six hour day in all train service, of course with the same daily pay as now received for eight hours.

The essence of the theory thus applauded by the Conference is that prosperity is to be attained by suppressing all labor-saving methods and making all kinds of industry consume as much labor as possible. It is a pity, according to this theory, that air and water are free, for if their production required as much labor as does food, the increased demand presumably would raise wages, put more money in circulation and increase prosperity! Once fully stated, no argument against this theory is necessary. The history of social progress has refuted it.

The theory revived by Mr. Green would mean that the only benefits of industrial progress would consist in more leisure time, the standard of living remaining practically unchanged.

A generation ago men and boys were accustomed to wear boots, to which were attached straps as a means of pulling them on. The straps thus served a useful purpose, and there developed the homely and practical illustration commonly applied to impossible undertakings, i. e., that "a man cannot lift himself over a fence by his bootstraps." Mr. Green's proposal for increasing prosperity and the general welfare by cutting down the hours of labor to offset every gain in the productivity of the industries, and increasing wages, which must be added to the prices of all products, is well illustrated by the attempt to lift oneself over a fence by his bootstraps. And the "progressive conference" greeted the economic proposition with applause. It was a piece of "progressive" philosophy.

We would like now to emphasize Mr. Green's statement that on the average the productivity of the manufacturing industries of this country increased between 1919 and 1929 by 50 per cent, and that the average of real wages to the employes in these industries increased by 27½ per cent. He should have said, and doubtless intended to say, that the average increase of productivity was 50 per cent per worker, for that is the showing of census figures, and makes the showing more remarkable. Undeniably it is an extraordinary showing of economic gain—never approached in a similar length of time in any other country, or even in this country. Certainly it is an achievement of great significance to the country. These are not figures for mere capacity but for actual production and distribution.

Increases in Productivity of Industry and Real Wages

Mr. Green used his figures to support an argument that labor has not been getting its fair share of the industrial product, and that for this reason consumption had fallen behind production and depression had resulted. This is one of the chief arguments of the Karl Marx philosophy, but dates back beyond Marx to another German socialist, Rodbertus. It has been shown to be fallacious over and over again, but we will undertake the task once more. In order to do so it will be necessary to go into the methods by which the comparison of wages and prices in the manufacturing industries is made. It will take space and may be a little tedious, but if any one is interested in the subject it is worth while.

The staff of the Federation of Labor is well informed upon the difference between money wages and "real" wages, or in other words, between nominal wages and the purchasing power of wages, and is quick to note a fall in the latter, which, of course, places wage-earners at a disadvantage unless money wages are raised to correspond. It is not quite so ready to note or consider a rise in the purchasing power of wages, such as has been go-

ing on now for several years and is illustrated by the fall of 17 per cent in food prices from February, 1930, to February, 1931, as calculated by the Bureau of Labor Statistics. The Federation is also alive to the fact that a great increase has been going on in the productivity of the industries, and has promptly advanced its claims on behalf of the wage-earners accordingly. It declares that "it no longer strives merely for higher money wages; it no longer strives merely for higher real wages; it strives for higher social wages, for wages increasing as measured by prices and productivity."** The tone of this declaration is confident and hopeful rather than despondent.

First, let it be understood that we accept the general principle that the wage-earners as a body should share proportionately in the benefits resulting from increased productivity in the industries. There is no issue upon that point, but Mr. Green's representation is not in line with the conclusions reached by careful, experienced and impartial economists who have analyzed the same figures upon which his argument is based.

It is evident immediately that although Mr. Green's figures for productivity and real labor earnings may be as nearly accurate as calculations can be made on the basis of available facts, something is wrong with his implication that the difference between them represents profits to the employers. The greater part of the difference is in the fact that the manufacturer sells at wholesale and the consumer buys at retail, so that the entire cost of the distributive system intervenes. The Monthly Labor Review, issued by the United States Bureau of Labor Statistics, in its December, 1930, number, says that from 1909 to 1929 average wholesale prices increased 42.8 per cent and retail prices increased 76.8 per cent. This does not signify that retail prices increased unduly, for retail prices include wholesale prices, and the general rise of wages increased all retailing costs as it did production and wholesaling costs. The costs of distribution may be higher than necessary, but manufacturers are not responsible for them; moreover, every attempt to reduce them, as by the introduction of chain stores or any innovation that promotes economy, arouses the familiar outcry that "enormous combinations of wealth are rapidly gaining control of all our business institutions."

Professor Douglas, (p. 527 of his book) gives the relative prices of manufactured products from 1899 to 1925, beyond where his computations ceased, but we are especially interested in Mr. Green's figures which are for 1919 and 1926. These figures are available from the census of manufactures and reports of the Bureau of Labor Statistics.

**"The American Federationist, August, 1927."

They do not agree exactly with Mr. Green's figures, for they show the gain in output per person to be 53.1 per cent and the gain in real wages to be 26.6, but the difference would be in favor of Mr. Green's argument rather than against it.

It may be explained that in massing together statistics concerning different kinds of products, measured by different standards, as pounds, bushels, gallons, yards, etc., it has been found convenient to do so by means of index numbers, which represent consolidated percentages of a certain base. Thus in this case average prices, volume of production and wages in all the manufacturing industries in 1919 are taken as the base and expressed as 100, and the figures for 1929 represent percentages of 100. The figures which with Mr. Green we have derived from the same authority, the census of manufactures, are as follows:

Manufacturing, Prices and Wages

1919 = 100

	1919	1929	1931 (Feb.)
Volume of Production (1)	100	144.7	
Output per Person (1)........	100	153.1	
Prices (2)	100	73.7	60.7
Wages (3)	100	126.6	

(1) Prolongation of data published in "Recent Economic Changes," E. E. Day and W. Thomas.

(2) Index of "Finished Products" of the Bureau of Labor Statistics.

(3) Hourly Wage Rate of the Bureau of Labor Statistics.

In making this comparison there is no need to enter into any calculation on account of the changing value of money. Wages were paid and products sold concurrently and in the same money values. From 1919 to 1929 wages increased by 26.6 per cent while prices fell 26.3 per cent. There are no official figures for production or wages since 1926, but the Bureau of Labor figures for wholesale prices shows a further decline to 40 per cent under the 1919 level.

The manufacturers were able to accomplish this remarkable feat by increasing the productivity of both labor and capital, which they did by adopting new methods, making large investments in new equipment and by organization changes. They increased the horsepower employed per industrial worker from 2.1 in 1899 to 4.7 in 1927. Without this increase in productivity obviously the increase of wages could not have occurred, or the public have had the increase of goods for consumption, and it is a fact known to all familiar with business conditions that profits have been so low in many industries that the era has been derisively called one of "profitless prosperity."

Finally, upon this point we quote from Chapter XII of the second volume of "Recent Economic Changes," entitled "The National Income and Its Distribution" written by Pro-

fessor Morris T. Copeland of Harvard University, a specialist in studies of manufacturing development and costs, as follows:*

Although manufacturing is commonly thought of as a type of business involving heavy capital investment, it is evident that capital receives only a small proportion of total realized income. The share of hired labor has been over 80 per cent since the war.

Explanation of Mr. Green's Calculation

With these preliminary comments, it will be of interest to examine the percentage calculations in detail. The figures for productivity and wage payments are derived from the official census of manufactures, now taken every two years. The figures for "real" wages are the result of a computation by which actual wages in terms of money are converted into dollars of uniform purchasing power from year to year. This is for the purpose of relating wages to the cost of living, and the computation is based upon prices of the kinds of goods and services for which wages are commonly expended, including house rent, food, clothing, fuel, etc. The computation is made by the United States Bureau of Labor statistics, and based upon prices in a number of scattered cities in this country. This affords means of comparing the trend of money wages with the real value of wages over a term of years.

Inquiry of Mr. Green as to the method by which his figures were arrived at elicited the information that they were obtained in the usual manner described above, except that the calculation of real earnings differs from that of the Bureau of Labor as stated below:

The Bureau of Labor Statistics figures on wages, used in their index of real wages, represent the rate of wages per hour, while the figures used in our index of real wages represent actual yearly earnings of wage earners. The Bureau of Labor Statistics figures cover industry as a whole, exclusive of agriculture; our figures cover manufactures only, since the Census of Manufactures is the only source of statistical data for the country as a whole which gives actual earnings of wage earners as far back as 1899.

The Bureau of Labor index of real wages shows an increase of 35 per cent per person from 1899 to 1929, and the Brissenden figures, which do not come down farther than 1927, show an increase of 33.5 per cent to that year. Professor Douglas' computation ends with 1925, and shows 30 per cent increase to that year. The Federation's computation gives an increase of 27½ per cent. Real wages gained but little from 1899 to 1919, because cost of living was advancing rapidly.

Of course, it is proper to make the computation by yearly earnings instead of hourly earnings, if all facts are stated, but the hourly rate gives comparative figures throughout the 30 year period, while the yearly rate makes no allowance for the fact that the average of work hours per week in 1899 was 57.5 and in 1929 was 49.7, a difference of 7.8 hours per week, according to Professor Douglas. Dr. Leo Wolman has estimated the reduction from 1914 to 1920 at five hours per week. Incidentally it may be mentioned that Dr. Wolman has been named as one of the new Committee of experts created by the recent Progressive Conference. In comparing weekly or yearly wages for periods thirty years apart, changes in the hours of labor per week certainly should be considered.

The Two Sets of Figures Not Comparable

The small differences between the computations may be passed over, for there are other points of more importance. Professor Douglas, in his book named above, devotes Chapter XXIX, (42 pages) to the question, "Has the increase of real wages kept pace with the increase of productivity?" and points out errors into which Mr. Green has fallen.(*) We have not space to quote Professor Douglas at length but the book is available generally in libraries. He shows that the two sets of figures are not comparable or closely related. The figures for productivity relate only to the physical product of the manufacturing industries, while the figures for "real" wages represent wages in the manufacturing industry converted into purchasing power in the manner described above. The products of the manufacturing industries are not sold exclusively to the employes of those industries, nor are manufactured goods the only factor in the cost of living, which is the basis of "real" wages.

Rent is an important factor in the workingman's cost of living, but house-building is not a manufacturing industry, except as regards the materials. The wages of the building trades are an important factor in rents. Transportation is not a manufacturing industry, nor is coal mining, but the rise of wages in railroading and coal mining, like the rise in the building trades and the rise of salaries, wages, rents and fuel throughout the processes of distribution, all come out of the wages which the manufacturing industries pay. Even the products of the factories reach factory employes burdened by these distribution costs, which as a rule have increased more than industrial costs, because the latter have been reduced by inventions, capital investments and all the methods of mass production, while the personal service of selling goods and delivering them to consumers has not been subject to economies of this kind.

***Note: The preparation of "Recent Economic Changes" was under the direction of Professor Wesley C. Mitchell, of Columbia University, and Professor Edwin F. Gay, of Harvard University, who are the Directors of Research for the well known organization, The National Bureau of Economic Research, Inc.**

(*) The argument was not directed at Mr. Green's statement, the book having been published nearly a year earlier.

All of this shows the fallacy of the theory that the general welfare can be advanced simply by an all-round increase of wages. The general welfare can be advanced only by increases in the productivity of the industries. Wage-increases which are added to the prices of the products and passed on to consumers do not increase the purchasing power of the population as a whole, or of the wage-earning class.

Professor Douglas points out that "what the workers in a given industry or group of industries are paid from is not physical product but value products," and that it is the exchange value of the product of a given industry in relation to other products and services that determines the real value of wages in the given industry. Real wages may rise in a given industry without any increase either of money wages or of productivity, if products of other industries decline in price. The 27½ per cent gain in the purchasing power of wages received in the manufacturing industries (despite the shortened week) is the net gain after these wage-earners have paid for the high wages and lack of corresponding productivity in other industries whose services they buy. The fact is that the manufacturing industries have outstripped all of the other industries in productivity gains, but the benefits, instead of being confined to the employes of these industries, are distributed to all consumers of factory goods.

Professor Douglas, after referring to rising rents and distribution costs, says:

> If, in consequence of such forces, the relative real earnings of the workers were not to keep pace with the movement of the value produce per laborer, this could not be said to be the 'fault' of manufacturing industry as such. The complaint of the workers would instead be primarily against the marketing structure and against the housing industry.

Distribution of Benefits

This clear reasoning shows the fallacy of the idea that wages in a single industry should rise to correspond with increased productivity which has resulted from technical improvements and capital investments in that industry. The regular force of wage-earners in that industry may contribute nothing to such improvement, which may be due to scientific developments outside of the industry. Moreover, conditions may require that the economic savings effected shall be given largely to the public through lower prices, in order to induce an increased volume of consumption to justify the expenditure.

The farmers never have been able to hold to themselves for very long the benefits arising from improved agricultural machinery. The city wage-workers have enjoyed cheaper food by reason of such machinery, and are getting a rise of real wages now from further developments of this kind. With what justice can the railroad or factory employes claim that all the benefits of low-cost methods in their industries shall be kept to themselves? That the benefits of all economic progress shall be widely distributed is a sound proposition, but a broader distribution is accomplished by a decline of prices than by a rise of wages in particular industries.

New Capital Requirements

There is another element in the distribution of the gains of productivity which must be considered, and that is the new capital constantly required to accomplish these gains. Such gains are not effected simply by more efficient operation of the old equipment, but by constantly making over the industries in methods and machinery. These funds must come in the main from the earnings. The industries must constantly renew themselves. Those that are not able to do this, fall behind in the competitive struggle and are eliminated. This is not to the disadvantage of the consuming public, but to its advantage. The increasing percentage of production per head of population means a rising standard of living.

It is often assumed that if the industries were owned in common, or by the Government for all, everything would be cheaper because no profits would be necessary, but if nothing was left over above operating costs there would be no capital for the development of the industries and without that no industrial progress.

The large profits in industry are all made by the introduction of new processes which reduce costs and ultimately, if not immediately, reduce prices to the public. The introduction of these processes requires large expenditures, and the inducement to the expenditures is the expectation of larger profits, not by higher prices but by lower costs. The Illinois Steel Company of Chicago, is just completing an investment of $70,000,000 upon its Chicago works, which, although it will increase capacity, is primarily intended to reduce costs. The producers who are first to adopt new methods are able to secure larger profits until the same methods have been generally adopted, after which prices and profits both decline and the benefits of this step of progress go to the consumers, including the entire body of wage-workers.

(This discussion will be continued next month showing the net income return of all manufacturing industries for the year 1929, the distribution of wealth, causes of the existing world depression, unemployment, etc.)